

# **PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP**

**OCTOBER 20 - NOVEMBER 09, 2001**

-----  
**Summary**  
-----

The weeks of October 22-November 9 saw the peso trading within a weaker band and the stock market closing at new seven-year lows. Recently-released numbers showed September export revenues down by 22% year-on-year and cumulative nine-month receipts off by more than 14.1%, as well as depressed vehicle sales through October. Consumer price inflation, on the other hand, slowed to the lowest year-on-year rate since November 2000. Meanwhile, the government and a number of private firms forged cooperative agreements with Microsoft to promote information and communications technology training and education, as well as develop a government portal to track and make publicly accessible progress on President Macapaga-Arroyo's much-heralded State of the Nation Address (SONA) "promises". We also report on the commissioning of a landmark deep-water natural gas project (with investments totaling \$4.5 billion to-date), which kicked off the Philippines' natural gas industry. End Summary.

These reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). Our next update will be available on or about November 23. We provide a longer and more detailed review of the Philippine economy in the October 2001 edition of our thrice-yearly Philippine Economic Outlook, which is also available on our web site.

-----  
**Contents**  
-----

Forex Report  
Credit Market Report  
Stock Market Report  
September Export Update: Slump Continues  
October Year-on-Year Inflation Slows to 12-Month Low

Pres. Arroyo Inaugurates Landmark Natural Gas Project  
 Jan-Oct Vehicle Sales Down 11.5% Year-on-Year  
 GOP/Private Firms Sign MOUs with Microsoft in Shanghai

## FOREX REPORT

-----

The peso, which had traded in a range of P51.51-P51.80/US\$ during October 8-19, slipped to a weaker P51.76-P52.09 band during the three weeks October 22-November 9. Traders cited generally weaker regional currencies as global economic and political uncertainty increased. They also noted that there was little in the domestic front to prop up short-term sentiment for the local currency (with, among others, the Macapagal-Arroyo administration fending off coup rumors, exports at depressed levels, and fears of increasing corporate loan defaults). The peso regained some lost ground during the November 5-9 trading week, which traders attributed to firmer regional currencies, positive inflation numbers, and the market's reaction to a 50 basis-point U.S. rate cut. Nevertheless, the local currency closed at P51.915/US\$ on November 9, 0.3% weaker than on November 19 (P51.75).

### ----- Exchange Rate Tables -----

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
OCT 01	51.371	51.400	61.0
02	51.580	51.600	113.0
03	51.598	51.575	95.6
04	51.587	51.540	98.7
05	51.532	51.565	66.5
 OCT 08	 51.589	 51.600	 48.0
09	51.767	51.800	77.5
10	51.794	51.791	51.7
11	51.794	51.750	75.0
12	51.770	51.800	82.0
 OCT 15	 51.781	 51.770	 25.0

16	51.735	51.740	50.5
17	51.770	51.740	62.5
18	51.694	51.640	64.0
19	51.712	51.760	68.7
OCT 22	51.778	51.775	35.9
23	51.813	51.930	59.5
24	51.897	51.945	85.3
25	51.970	52.010	100.0
26	52.058	52.040	54.7
OCT 29	51.993	51.930	71.4
30	51.935	51.940	82.1
31	51.956	51.955	33.0
NOV 01	Philippine holiday		
02	Philippine holiday		
NOV 05	51.910	51.920	69.5
06	51.966	51.965	83.0
07	51.940	51.880	93.1
08	51.840	51.750	96.5
09	51.786	51.915	87.5

-----  
Source: Bankers Association of the Philippines

#### **CREDIT MARKET REPORT**

-----

Securities dealers continued to bid up rates during the government's weekly (Monday) primary Treasury bill auctions on October 22, October 29, and November 5. The Treasury fully awarded the P3.5 billion worth of bills scheduled for sale on October 22, noting strong demand for the bills and investors' continued concerns over the then two-week old, U.S.-led counter-strikes on Taliban forces in Afghanistan. The full award on October 22 also followed either partial awards or full rejections for the longer-term 182-day and 364-day bills during the preceding two auctions. The average rate for the 91-day bills rose by 11.5 basis points week-on-week to 9.918%. Rates for the 182-day paper increased by 12.5 basis points week-on-week to 12.179%; and by 30.5 basis points to 13.005% for the 365-day maturity from when they were last sold on October 8. The Treasury subsequently rejected all bids across the three T-bill maturities as

"too high" during the government's October 29 and November 5 primary auctions. Analysts commented that dealers were "testing" the government's peso borrowing needs on expectations of increasing fiscal pressures and limited foreign-funding opportunities.

The government also offered P3 billion worth of 5-year Treasury-bonds in a primary auction on October 30. The offering was under-subscribed (P2.4 billion in tenders) and the government accepted less than P1 billion of the bids at an average rate of 16.25% (higher by 75 basis points from when the bonds were last issued in early October). In early November, the Treasury re-issued P22 billion worth of four-year "retail" Treasury bonds (i.e., bonds issued in smaller denominations and targeted for non-institutional investors) which it had originally sold in May at a 14.25% coupon rate. The bonds, which have a remaining maturity of 3.5 years, were issued at a higher yield to investors (i.e., 15.375%). In the short-term, analysts expect lower inflation and recent monetary-easing measures by the Bangko Sentral ng Pilipinas (BSP, the central bank) to ease upward pressures on government debt paper.

6. Encouraged by lower inflation numbers, the Philippine Monetary Board (the BSP's highest policymaking body) decided to follow, effective November 9, the U.S. Federal Open Market Committee's (FOMC) most recent 50 basis-point interest-rate cut. The BSP last reduced overnight policy rates by 25 basis points on October 5 after adopting a neutral interest-rate policy stance since mid-year despite successive U.S. FOMC rate reductions (which reflected concerns that a narrowing interest-rate differential would induce conversion to foreign-denominated assets and threaten the stability of the peso). This brings the cumulative cut in BSP policy rates since December 2000 to 675 basis points. The BSP's overnight borrowing and lending rates now stand at 8.25% and 10.5%, respectively. The BSP also restored a tiered interest-rate scheme on banks' overnight placements (under which it pays lower returns for placements above certain amounts to encourage banks to channel their excess funds to government securities or direct lending to productive sectors). The Monetary Board hinted there was room for further monetary easing given the currently positive inflation outlook for the rest of the year.

-----  
Domestic Interest Rates (in percent)  
-----

Treasury Bills  
-----

Auction Date	91 days	182 days	364 days
-----	-----	-----	-----
SEP 10	9.454	11.803	12.689
SEP 17	9.467	11.629	12.544
SEP 24	9.577	11.767	12.669
OCT 01	9.730	11.939	no sales
OCT 08	9.627	11.929	12.757
OCT 15	9.803	12.054	no sales
OCT 22	9.918	12.179	13.062
OCT 29	no sales	no sales	no sales
NOV 05	no sales	no sales	no sales

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks  
-----

Date of Survey	Average	Range
-----	-----	-----
AUG 16	13.0594	11.00 - 14.652
AUG 23	12.9746	11.00 - 14.590
AUG 29	12.9726	11.00 - 14.590
SEP 06	12.8884	11.00 - 14.590
SEP 13	12.8746	11.00 - 14.590
SEP 20	12.8561	11.00 - 14.467
SEP 28	12.8915	11.00 - 14.577
OCT 04	12.9743	11.00 - 14.730
OCT 11	12.9524	11.00 - 14.730
OCT 18	12.0239	11.00 - 14.803
OCT 25	13.0653	11.00 - 14.918
OCT 31	13.0653	11.00 - 14.918
NOV 08	13.0831	11.00 - 14.918

Sources: Bangko Sentral ng Pilipinas; Press reports  
-----

**STOCK MARKET REPORT**  
-----

Despite occasional upward blips on selective bargain-hunting, the Philippine stock market generally drifted down over the October 22-November 9 trading weeks on continuing global uncertainties and weak corporate-profit reports. The Philippine Stock Price Index (Phisix) closed most days under the 1,000 mark and languished to new lows in the seven-year history of the unified stock exchange. The Phisix closed at 999.79 on November 9, down by 1.9% from its 1,088.44 closing level on October 19 and by over 33% from end-2000. (See Section II for detailed stock market data).

-----  
Philippine Stock Exchange Index (PHISIX) and  
Value of Shares Traded  
-----

Date	PHISIX Close	Value (Million pesos)
----	-----	-----
OCT 01	1125.06	228
02	1105.01	130
03	1089.28	278
04	1094.93	427
05	1088.44	535
OCT 08	1048.67	
09	1033.19	277
10	991.35	472
11	990.03	458
12	1017.87	583
OCT 15	1040.80	391
16	1035.91	312
17	1043.01	312
18	1028.40	268
19	1019.44	200
OCT 22	1011.10	251
23	988.04	343
24	979.34	247
25	989.97	206
26	1002.52	299
OCT 29	994.84	863
30	995.14	346

31	993.35	326
NOV 01	Philippine holiday	
02	Philippine holiday	
NOV 05	997.50	541
06	988.56	422
07	988.79	286
08	996.02	472
09	999.79	413

-----  
Source: Philippine Stock Exchange

# **SEPTEMBER EXPORT UPDATE: SLUMP CONTINUES**

-----

The latest available merchandise export statistics (publicly released on November 5) show that exports continue to perform poorly, hit hard by the economic slowdown in the United States and Japan and by the weak global demand for electronic products. According to the National Statistics Office (NSO), October 2001 export receipts dipped by 22% year-on-year to \$2.6 billion -- following on year-on-year declines posted in February (3.4%), March (4.0%), April (15.8%), May (11.4%), June (23.4%), July (19.4%), and August (25.8%). Receipts from shipments of electronic components (which slumped by 34% in US\$ terms) also shrank year-on-year for a seventh month in a row. Cumulatively, January to September export revenues declined by 14.1% from 2000's comparable nine-month level, with receipts from electronics (60% of total export revenues) down 22.9%.

Merchandise exports to the United States (the Philippines' largest export market) accounted for over 28% of total export receipts during the first nine months of the year but suffered a 18.1% decline from 2000's comparable level. With hopes for a rebound in external markets during the rest of 2001 vanished, full-year export revenue -- which slowed to a single-digit growth rate in 2000 -- is headed for a year-on-year contraction for the first time since 1985.

-----  
PHILIPPINE MERCHANDISE EXPORTS  
(In US\$ Millions)

	January - 2000	September 2001	Growth (%)
TOTAL EXPORTS	27,867.0	23,934.1	(14.1)
-----	-----	-----	-----
Agro-Based Products	1,218.7	1,159.9	(4.8)
Forest Products	25.7	19.0	(26.1)
Mineral Products	482.3	405.2	(16.0)
Petroleum Products	287.2	188.0	(34.5)
Manufactures	25,138.4	21,312.8	(15.2)
Electronics Components	18,184.0	14,022.7	(22.9)
Others (mainly re-exports)	714.7	849.2	18.8

-----  
Source: National Statistics Office

#### **OCTOBER YEAR-ON-YEAR INFLATION SLOWS TO TWELVE-MONTH LOW**

-----

Year-on-year inflation averaged 6.5% during the first ten months of the year. Barring severe domestic or external pressures on food supply, fuel prices, and the local currency, year-on-year inflation is likely to slow further in the remaining months of the year. We expect year-on-year inflation for the 2001 full-year to average closer to the lower end of the government's targeted 6% to 7% range.

October 2001's consumer price index (CPI) increased by 0.1% month-on-month, slower than the 0.2% rate posted in September. Relatively stable prices mainly reflected a 0.1% month-on-month decline in the heavily-weighted food and beverage index, which benefited from favorable weather conditions and the onset of the harvest season for a number of crops. Slower increases for housing and repairs (0.2% from 0.5%) and services (0.1% from 0.3%) also contributed to October's slower month-on-month CPI increase. Meanwhile, the indices for clothing and miscellaneous items increased at the same rates

registered in September (i.e., 0.1% and 0.4%, respectively). October 2001's 0.1% month-on-month inflation also represented a marked deceleration from that posted in October 2000 (0.7%).

On a year-on-year basis, inflation slowed to 5.4% in October -- the lowest recorded year-on-year rate since November 2000. Vis-à-vis September 2001's year-on-year CPI increase, all major indices posted slower year-on-year inflation rates: food and beverages (3.9% from 4.2%); clothing (3.5% from 3.9%); housing and repairs (6.9% from 7.9%); fuel, light, and water (9.3% from 10.3%); services (9.1% from 11.3%); and miscellaneous items (3.5% from 4.1%). Year-on-year inflation had been expected to slow towards the fourth quarter as prices came off a relatively high 2000 base (during which foreign exchange and oil price-related price adjustments had accelerated).

-----  
 PHILIPPINE CONSUMER PRICE INFLATION  
 (IN %)  
 -----

	Year-on-Year	Month-on-Month
	-----	-----
Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average		
Jan-Oct	4.0	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Mar	6.7	0.1
Apr	6.7	0.3

May	6.5	0.1
Jun	6.7	1.0
Jul	6.8	0.6
Aug	6.3	0.2
Sep	6.1	0.2
Oct	5.4	0.1
Average		
Jan-Oct	6.5	

-----  
Source: National Statistics Office

#### **PRES. ARROYO INAUGURATES LANDMARK GAS-TO-POWER PROJECT**

-----

On October 16, President Gloria Macapagal-Arroyo inaugurated the Malampaya Deep-Water Natural Gas Project in a ceremony held at an on-shore gas plant in the southern city of Batangas. The Philippine president hailed the project as "the birth of the country's natural gas industry". The inauguration was held 3-1/2 years after the "Declaration of Commerciality" in May 1998. The ceremony included the start-up of the Malampaya production platform and the start-up operation of the 1000-megawatt Sta. Rita Power Plant in Batangas City (the first of three power stations targeted to receive gas from Malampaya's upstream component). The Malampaya project consists of: the extraction of natural gas 3,000 meters below sea level in offshore Palawan; transport of the gas to a shallow-water production platform (to separate the condensate from the gas); and transport of the dry gas through a 504-kilometer sub-sea pipeline (among the longest in the world) to an on-shore gas plant for final processing; and delivery to three power stations.

With investments totaling \$4.5 billion to-date for the upstream and downstream components, the Malampaya gas-to-power project is considered the largest infrastructure development and most significant industrial investment thus far in Philippine history. The project's upstream component is a joint venture between Shell (45%), U.S. firm Chevron-Texaco (45%), and government-controlled company Philippine National Oil Company-Exploration Corporation (PNOC-EC, 10%). The Energy Department noted in a press release that with the project now operational,

the Philippines has joined its neighbors Malaysia, Indonesia, and Brunei as a major natural gas producer.

Energy Department officials estimate that once the natural gas project becomes fully operational next year, the three recipient power plants' combined 2,700-megawatt capacity would be able to generate about 16% of total 2002 electricity supply and about half of the Luzon island grid's power needs. The Malampaya project is expected to reduce dependence on imported fuel for Philippine power generation requirements by more than 20%. According to government estimates, the Philippines stands to benefit from \$8-10 billion in government revenues over the next two decades and from foreign exchange and electricity-cost savings of the same magnitude. The project will contribute, as well, to the country's efforts to reduce harmful emissions.

#### **JAN-OCT VEHICLE SALES DOWN 11.5% YEAR-ON-YEAR**

The Chamber of Automotive Manufacturers of the Philippines (CAMPI) reported that October 2001 vehicle sales (in number of units sold) contracted by 7.1% (536 units) year-on-year. Both passenger and commercial vehicle sales declined, the former by 6.3% (458 units) and the latter by 7.5% (393 units). Cumulative January-October vehicle sales dropped by 11.5% (8,297 units) from the number of vehicles sold during 2000's comparable period. Ten-month sales of passenger cars slumped by 21.6% (5,519 units) year-on-year while automotive firms sold 6% (2,778) less units of commercial vehicles compared to the January-October 2000 level. Industry officials see little respite from depressed sales over the next several months in the midst of deepening global and domestic economic uncertainties. Given current economic conditions, they also noted that vehicle assemblers were facing increasing competition from the second-hand vehicle market.

#### **AUTOMOTIVE INDUSTRY SALES**

(No. of Units)

	2000	2001	% Growth
	----	----	-----
October 2001, Total	7,473	6,937	(7.2)
Passenger Cars	2,252	2,109	(6.3)
Comm'l Vehicles	5,221	4,828	(7.5)
Jan-Oct 2001, Total	71,977	63,680	(11.5)
Passenger Cars	25,536	20,017	(21.6)
Comm'l Vehicles	46,441	43,663	(6.0)

-----  
Source: Chamber of Automotive Manufacturers of the Phil.

#### **GOP & PRIVATE FIRMS SIGN MOUs WITH MICROSOFT IN SHANGHAI**

-----

The Philippine government and Microsoft entered into memoranda of understanding (MOUs) on October 19 in Shanghai, China after a meeting between President Gloria Macapagal-Arroyo and Microsoft Chairman Bill Gates at the recent APEC Leaders' Summit. Microsoft Philippines and Clark Development Corporation, a corporation created to oversee the development of the former base, agreed to cooperate on implementing an information and communications technology (ICT) training and certification program at the newly instituted Clark Polytechnic to serve the needs of locator firms in the government-run free ports. Another MOU -- forged between Microsoft and the Office of the Philippine President -- involves the development of a government portal to monitor and make publicly accessible progress on President Macapagal-Arroyo's pledges in her first State of the Nation Address (SONA) last July. Meanwhile, Microsoft, telecom giant Philippine Long Distance Telephone Company (PLDT), and Philippine IT-education firm Systems Technology Institute (STI) also signed an MOU towards promoting ICT learning in the country. Under that MOU, PLDT's role would be to provide the infrastructure for the online delivery of ICT courseware; STI to develop the courseware content; and Microsoft to provide the necessary applications.

Government officials told the Embassy that these agreements reflect President Macapagal-Arroyo's emphasis on ICT and "e-learning" as the foundation of future economic development. The MOU between the Office of the

President and Microsoft hopes, furthermore, to emphasize President Macapagal-Arroyo's confidence and resolve to deliver on her SONA promises by providing a venue by which progress could be tracked and measured. Focused on poverty alleviation goals (among them agricultural modernization, mass housing, lower medicine prices, and health insurance for the poor), critics and opposition leaders have branded the SONA pledges as unrealistic and deceptive -- especially given the weak state of government finances.